

Message Text

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NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

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USMISSION NATO

AMEMBASSY DUBLIN

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SUBJ: NEGOTIATIONS OVER ECONOMIC POLICY MAY LEAD TO ELECTIONS
IN DENMARK

REF: COPENHAGEN 1356, 1367, 1398

SUMMARY: THE EXTRORDINARY MID-SEPTEMBER FOLKETING SESSION

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CALLED TO ADOPT NEW TAX LEGISLATION HAS GIVEN RISE TO AN

INTENSE ROUND OF POLLITICAL NEGOTIATIONS OVER THE GOVT'S FUTURE ECONOMIC POLICY. GIVEN ITS NARROW PARLIAMENTARY BASE, THE MINORITY MODERATE LIBERAL GOVT MIGHT WELL CALL NEW ELECTIONS UNLESS ITS ECONOMIC POLICY RECEIVES SOLID SUPPORT FROM MOST MAJOR PARTIES. END SUMMARY.

1. THE PARLIAMENTARY SESSION COMMENCING SEPT 12 WAS CALLED BY PRIMIN HARTLING TO ADOPT LEGISLATION TO CHANGE THE BASIC DANISH TAX STRUCTURE. THIRD PHASE OF GOVT'S ORIGINAL THREE-PHASE ECONOMIC PROGRAM (REFTELS) PROMISED SUBSTANTIAL (10 BILLION KRONER - 1.6 BILLION DOLLAR) REDUCTION IN PERSONAL INCOME TAXES STARTING JANUARY 1975, TO BE OFFSET BY FIVE BILLION KRONER BUDGETARY SAVINGS AND FIVE BILLION KRONER ADDITIONAL REVENUE OBTAINED BY INCREASING VAT RATE FROM 15 TO 20 PERCENT. GOVT'S PROPOSALS FOR BUDGETARY SAVINGS HAVE BEEN UNDER DISCUSSION THROUGHOUT SUMMER. HOWEVER, ADVERSE TURN IN GENERAL ECONOMIC SITUATION AND, IN PARTICULAR, NECESSITY TO INCORPORATE FORTHCOMING WAGE AND SALARY AGREEMENTS INTO THE TAX REFORM CALCULATIONS (BIENNIAL NATION-WIDE WAGE CONTRACTS EXPIRE MARCH 31) HAVE UP-GRADED THIS DISCUSSION INTO A HECTIC ROUND OF INTER-PARTY NEGOTIATIONS TO SETTLE THE MAIN PARAMETERS OF THE GOVT'S ECONOMIC POLICY FOR THE COMING 15-24 MONTH PERIOD.

2. IN THESE ALTERED CIRCUMSTANCES THE GOVT'S PROMISE DURING THE MAY CRISIS TO FOUR NON-SOCIALIST PARTIES TO AGREE UPON SAVINGS (PRIMARILY IN THE SOCIAL WELFARE AREA) AMOUNTING TO AT LEAST FIVE BILLION KRONER HAS BEEN THROWN INTO QUESTION. THE ADVISABILITY OF SUCH A SHARP REDUCTION IN GOVERNMENT SPENDING IN A PERIOD OF THREATENING ECONOMIC SLOWDOWN IS ONE ASPECT OF THE GOVT'S PROBLEM. THE OTHER IS THAT GOVT MUST COMPROMISE WITH THE SOCIAL DEMOCRATS (RATHER THAN THE FOUR NON-SOCIALIST PARTIES) ONCE THE PROBLEM HAS BEEN CAST - AS IT NOW HAS - IN TERMS OF A POSSIBLE INCOMES POLICY. ONLY A VERY BROAD COMPROMISE, SUPPORTED BY A SUBSTANTIAL MAJORITY IN PARLIAMENT, INCLUDING ESPECIALLY THE SOCIAL DEMOCRATS, COULD SERVE AS A SUFFICIENT GUARANTEE TO

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SECURE THE ACCEPTANCE OF AN INCOMES POLICY BY THE LABOR MARKET ORGANIZATIONS, E.G., THE EMPLOYERS AND THE TRADE UNION FEDERATIONS.

3. SOCIAL DEMOCRATIC PARTY AND TRADE UNION FEDERATION (LO) SPOKESMEN HAVE DECLARED THEMSELVES WILLING TO CONSIDER AN INCOMES POLICY (OR "TOTAL SOLUTION"), IF:
(1) BUDGET CUTS ARE LIMITED TO BETWEEN 2-3 BILLION

KRONER AND AFFECT OTHER AREAS OF GOVERNMENT EXPENDITURE AS WELL AS SOCIAL WELFARE; AND (2) MAIN ELEMENTS OF SOCIAL DEMOCRATIC PROPOSAL FOR "CONOMIC DEMOCRACY" ARE MADE PART OF THE GENERAL "INCOMES POLICY" PACKAGE. NEGOTIATIONS HAVE CURRENTLY POLARIZED INTO GOVERNMENT-SOCIAL DEMOCRATIC PARTY CONFRONTATION WITH TALKS BEING CONDUCTED AT HIGHEST LEVEL (HARTLING AND ANKER JORGENSEN). BOTH PARTIES HAVE SCHEDULED MEETINGS OF THEIR NATIONAL REPRESENTATIVE BODIES (MODERATE LIBERALS AUG. 31-SEPT.1; SOCIAL DEMOCRATS SEPT. 7-8) TO SEEK ENDORSEMENT OF PARTY LEADERSHIP'S POLICY. WHETHER A GOVT-SOCIAL DEMOCRATIC COMPROMISE CAN BE REACHED SHOULD BE CLEAR BEFORE SPECIAL PARLIAMENTARY SESSION CONVENES SEPT. 12. THEREAFTER THE TWO-PARTY AGREEMENT WOULD HAVE TO BE APPROVED BY MOST OF THE OTHER OLD-LINE PARTIES TO GIVE HARTLING THE SUBSTANTIAL MAJORITY NECESSARY FOR AN "INCOMES POLICY" SOLUTION.

4. HARTLING'S MODERATE LIBERAL PARTY WOULD APPEAR TO HAVE A STRONG BARGAINING POSITION. LATEST POLLS INDICATE THEY WOULD SUBSTANTIALLY INCREASE THEIR REPRESENTATION IN THE FOLKETING IN CASE NEGOTIATIONS FAIL AND ELECTIONS ARE CALLED, FROM 22 SEATS (12.3 PERCENT OF VOTE) TO 37 (22 PERCENT). SOCIAL DEMOCRATS, HOWEVER, WOULD ALSO ADVANCE, WINNING APPROXIMATELY 10 SEATS IN ADDITION TO THEIR PRESENT 46. IN TERMS OF LARGER BLOC RESULTS, THE SOCIALISTS (SOCDEMS, SOCIALIST PEOPLES, LEFT SOCIALISTS AND COMMUNISTS) WOULD IMPROVE THEIR COMBINED HOLDINGS FROM 63 TO APPROXIMATELY 75 SEATS (OUT OF FOLKETING'S 179) AT EXPENSE OF NON-SOCIALIST PARTIES, ESPECIALLY OF HARTLING'S CLOSES ALLY, THE CENTER DEMOCRATS, WHO WOULD LOSE 10 OF THEIR PRESENT 14 SEATS, WHILE RADICAL LIBERALS AND CONSERVATIVES WOULD ALSO LOSE SUBSTANTIALLY. CONFIDENTIAL

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CONSEQUENTLY, WHILE SUCH AN ELECTION WOULD PERMIT MODERATE LIBERALS TO CASH IN ON THEIR PRESENT ADVANTAGEOUS POSITION, IT WOULD JEOPARDIZE THEIR CONTINUED CONTROL OF GOVERNMENT, AND WOULD CERTAINLY ENHANCE SOCIAL DEMOCRATIC INFLUENCE ON OR IN ANY SUCCESSOR GOVERNMENT.

5. COMMENT. AT PRESENT, THE PROBABILITY OF AN ELECTION MUST BE CONSIDERED AS GREAT AS THE PROBABILITY OF A COMPROMISE BEING REACHED. THERE IS CLEARLY LITTLE POPULAR ENTHUSIASM FOR AN ELECTION AND LITTLE HOPE THAT ONE WOULD REDUCE THE NUMBER OF PARTIES IN THE FOLKETING. SINCE THE MAVERICK PROGRESS PARTY IS STILL SUPPORTED BY 15 PERCENT OF THE POLLED ELECTORATE, DESPITE THE ON-GOING TAX TRIAL OF ITS LEADER, MOGENS

GLISTRUP, THERE WOULD BE LITTLE POSSIBILITY OF UNDERMINING ITS STRONG POSITION IN THE FOLKETING.

6. ON THE OTHER HAND, A COMPROMISE ON AN INCOMES POLICY WOULD REQUIRE SIGNIFICANT CONCESSIONS TO THE SOCIAL DEMOCRATS, PROBABLY GREATER THAN THE GOVT IS POLITICALLY WILLING TO MAKE. THE SOCIAL DEMOCRATS, WITH AN EYE ON THEIR TRADE UNION SUPPORTERS, ARE EXTREMELY RELUCTANT TO AGREE TO AN INCOMES POLICY SOLUTION WHILE THEY REMAIN IN OPPOSITION, SINCE THEY CANNOT THEN ASSURE THAT GOVT UNDERTAKINGS IN CONNECTION WITH THAT POLICY WOULD BE CARRIED THROUGH.

7. MOREOVER, INCREASING UNEMPLOYMENT AS THE FALL PROGRESSES AND WORSENING ECONOMIC PROJECTIONS - IF A GENERAL COMPROMISE IS NOT REACHED - CAN BE EXPECTED TO DIMINISH THE GOVT'S POPULARITY, TO THE ADVANTAGE OF THE SOCIALIST BLOC. IF HARTLING DOES CHOOSE TO GO TO THE COUNTRY, THEREFORE, IT WOULD PROBABLY SERVE HIS INTERESTS BETTER TO DO SO EARLIER RATHER THAN LATER(WITH OCTOBER 8 OR 15 MENTIONED AS LIKELY ELECTION DATES), AND IT IS THIS CONSIDERATION THAT HAS PUT SUDDEN STEAM INTO THE CURRENT NEGOTIATIONS.
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